

Message Text

CONFIDENTIAL

PAGE 01 SEOUL 10799 230811Z
ACTION EA-12

INFO OCT-01 ISO-00 ONY-00 /013 W
-----000896 230818Z /11-R
R 230338Z DEC 77
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 8368

C O N F I D E N T I A L SEOUL 10799

STADIS////////////////////////////////////

E.O. 11652: GDS
TAGS: PFOR, AMGT, KS
SUBJECT: EAST ASIA ECONOMIC POLICY REVIEW

REF: (A) STATE 299030, (B) SEOUL 3050

1. OUR RE-READING OF SEOUL 3050 CONFIRMS THAT IT IS CURRENT.
2. SPECIFIC EVENTS WHICH HAVE OCCURRED IN THE PAST YEAR
THAT WILL HAVE A BEARING ON THE FUTURE ECONOMIC POLICY OUTLOOK
INCLUDE:

A. THE BALANCE OF PAYMENTS MOVED TO A MODEST SURPLUS WHILE
THE MONEY SUPPLY GREW 50 PERCENT FOR THE 12 MONTH PERIOD
END SEPTEMBER, FORCING THE GOVERNMENT TO BEGIN SIGNIFICANT
IMPORT LIBERALIZATION.

B. GEOGRAPHIC MARKETS WERE DIVERSIFIED (THE MIDDLE EAST
AND IN PARTICULAR, SAUDI ARABI, ARE NOW EQUALLY IMPORTANT
AS MARKETS WITH JAPAN AND THE UNITED STATES).

C. LABOR SHORTAGES BECAME APPARENT NOT ONLY AMONG THE SKILLED
BUT ALSO THE UNSKILLED. THESE WILL ACCELERATE THE CHANGES
IN LINES OF PRODUCTION OVER THE NEXT FEW YEARS, PARTICULARLY
OUT OF THE MORE LABOR INTENSIVE AREAS SUCH AS TEXTILES,
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SEOUL 10799 230811Z

GARMENTS AND FOOTWEAR, WILL INCREASE CAPITAL NEEDS PROBABLY
ABOVE THAT WHICH THE FOURTH FIVE YEAR PLAN PROJECTS, WILL
INCREASE THE NEED FOR HIGHER TECHNOLOGY AND WILL INCREASE
THE NEED FOR TECHNICAL TRAINING.)

D. THE KOREAN ECONOMY'S FLEXIBILITY HAS PROVED SUFFICIENT
TO MEET ITS GOALS DESPITE GROWING PROTECTIONIST MEASURES

(IF THE INCREASE IN PROTECTION BECOMES A TREND BUT OCCURS SLOWLY ENOUGH, WE MAY PERHAPS SEE THE KOREANS ADAPT TO THAT TREND SUCCESSFULLY).

E. RICE PRODUCTION GREW RAPIDLY (KOREA IS NOW MORE THAN SELF-SUFFICIENT AND HAS BEEN ABLE TO SUBSTITUTE RICE FOR BOTH BARLEY AND IMPORTED WHEAT).

3. SPECIFIC FUNCTIONAL AREAS:

A. BILATERAL AID: FOOD AID CONTINUES TO BE OF SOME IMPORTANCE TO KOREA BY PROVIDING LONG-TERM, LOW INTEREST CREDIT. WE BELIEVE THE MAJOR JUSTIFICATION FOR THIS AID IS TO BE FOUND PRIMARILY IN THE U.S. DESIRE TO CONTINUE OUR VIRTUAL MONOPOLY IN THIS MARKET AND SECONDARILY IN SEEING THE FLOW OF FUNDS CONTINUE TO BE INVESTED IN AREAS WHICH MEET BASIC HUMAN NEEDS THAT WOULD NOT OTHERWISE OCCUR. THE KOREAN GOVERNMENT HAS ASKED THE U.S. FOR A LONG-TERM AGREEMENT TO SUPPLY FOOD IMPORTS WHICH WOULD INCLUDE A PROVISION TO FINANCE SOME PORTION OF ITS NEEDS.

B. MULTILATERAL AID: THE KOREANS WILL CONTINUE TO LOOK TO THE WORLD BANK AND THE ADB FOR LONG-TERM PROJECT FINANCING. INTEREST CHARGES ARE SUFFICIENTLY HIGH SO THAT THEY ARE NOT CONCESSIONAL. GIVEN THE SECURITY RISKS WHICH MAKE LONG-TERM COMMERCIAL BORROWING BEYOND SEVEN YEARS VERY CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SEOUL 10799 230811Z

DIFFICULT FOR KOREA AND THE FOCUS OF MOST IFI LOANS ON THE SATISFACTION OF BASIC HUMAN NEEDS AMONG THE COUNTRY'S POOREST, CONTINUED PROVISION OF THIS AID SEEMS JUSTIFIED.

C. INVESTMENT POLICY: KOREA REMAINS OPEN TO FOREIGN INVESTMENT BUT ON LESS ATTRACTIVE TERMS. FOREIGN LOAN FUNDS AND TECHNICAL LICENSING APPEAR TO BE CHEAPER, AND LESS TROUBLESOME THAN FOREIGN EQUITY INVESTMENT, WHILE KOREAN MANAGEMENT SEEMS VERY GOOD. THUS INVESTMENT WILL BE ALLOWED ONLY IN JOINT VENTURES OR WILL REQUIRE THE PROVISION OF SOME TECHNOLOGY WHICH WOULD NOT OTHERWISE BE AVAILABLE. IT IS THE EMBASSY'S VIEW THAT INVESTMENT IS PREFERABLE TO LICENSING, IN THAT THE RETURN IS GREATER, THOUGH SO IS THE RISK.

D. OPIC: VITAL FOR KOREA BECAUSE OF THE SECURITY RISK, OPIC INSURANCE IS THREATENED BY THE NEW LEGISLATIVE REQUIREMENT CONCERNING PER CAPITA GNP. WE NOW EXPECT KOREA TO SURPASS THE CEILING IN 1979. WE RECOMMEND THAT AN EXCEPTION BE MADE FOR KOREA BECAUSE OF THE SPECIAL SECURITY CIRCUMSTANCES.

E. TRADE POLICY: KOREA HAS POWERFUL INTERESTS AT STAKE IN THE FREE WORLD TRADING COMMUNITY. IT WILL GENERALLY SUPPORT FREE TRADE POLICIES AND WILL REGARD DEPARTUREX AS THREATENING THE GROWTH IN EXPORTS WHICH IS ESSENTIAL FOR ITS OWN ECONOMIC SUCCESS.

F. COMMERCIAL POLICY: THE VIEW THAT KOREA HAS FOLLOWED THE JAPANESE MODEL AND "INCORPORATED" HAS SOME VALIDITY, BUT IMPLIES A COMPETITIVE THREAT THAT IS EXAGGERATED. KOREAN BUSINESS HAS COME FROM NOWHERE SO RAPIDLY THAT OBSERVERS FREQUENTLY FAIL TO SEE THE LIMITS ON KOREAN GROWTH -- MARKETS, LABOR SHORTAGES AND TECHNOLOGICAL INFERIORITY. THEY ALSO SEE THE ALLIANCE BETWEEN BUSINESS

CONFIDENTIAL

PAGE 04 SEOUL 10799 230811Z

AND GOVERNMENT AS UNFAIR AND MISS THE VERY HIGH STAKE GOVERNMENT HAS IN BUSINESS SUCCESS AND ITS IMPORTANCE IN PROVIDING CONSISTENT AND BALANCED GUIDANCE TO BUSINESS EFFORTS. HENCE, CLOSE ROKG BUSINESS COOPERATION IS CERTAIN TO CONTINUE FOR THE FORESEEABLE FUTURE, ALTHOUGH THE RELATIVE STRENGTH OF BUSINESS IN THE ALLIANCE IS LIKELY TO GROW.

G. EX-IM BANK: EX-IM BANK FINANCING IS VITAL FOR AMERICAN SUPPLIERS TO MEET COMPETITION IN SUCH AREAS AS UNCLEAR POWER GENERATION, WHERE THE TERM OF THE LOAN IS SO LONG THAT NO PRIVATE CREDIT IS AVAILABLE AND, AS IS THE CASE IN TEXTILE AND GARMENT MACHINERY, WHERE COMMERCIAL INTEREST RATES ARE TOO HIGH TO MAKE IT POSSIBLE FOR AMERICAN SUPPLIERS TO COMPETE (WE ARE LOSING MUCH BUSINESS TO JAPANESE AND WESTERN EUROPEAN SUPPLIERS BECAUSE OF LOW INTEREST AND 10-YEAR CREDIT TERMS THAT ARE AVAILABLE FROM THOSE SUPPLIERS). WE NOTE THAT EXPORTS HAVE GROWN AT THE RATE OF 40 PERCENT FROM KOREA AND ITS MANUFACTURERS OF EXPORT PRODUCTS HAVE HAD TO INVEST AT CORRESPONDING RATES. THEY HAVE THEREFORE SOUGHT CREDIT FROM ANY SOURCE ON ATTRACTIVE TERMS.

H. COMMODITY POLICY: KOREA'S ECONOMIC INTERESTS CLEARLY PUT IT ON THE SIDE OF THE DEVELOPED COUNTRIES. HOWEVER, ITS MEMBERSHIP IN THE G-77 AND ITS DESIRE FOR POLITICAL SUPPORT FROM THAT GROUP HAS GENERALLY SILENCED IT ON COMMODITY POLICY DISPUTES.

I. CIVIL AVIATION: ALTHOUGH THERE ARE NO MAJOR OUTSTANDING CIVIL AVIATION ISSUES AT THIS TIME, PROBLEMS CONTINUALLY ARISE DUE TO THE KOREAN GOVERNMENT'S SUBTLE, AND SOMETIMES NOT SO SUBTLE, EFFORTS TO FAVOR THE NATIONAL CARRIER. AT THE PRESENT TIME THE QUESTION OF ADEQUATE CARGO FACILITIES

CONFIDENTIAL

CONFIDENTIAL

PAGE 05 SEOUL 10799 230811Z

IN THE KIMPO AIRPORT EXPANSION REMAINS UNRESOLVED, BUT INDICATIONS ARE FOREIGN CARRIERS MAY BE PERMITTED TO BUILD THEIR OWN. THERE IS CONTINUAL NEED TO MONITOR THE SITUATION WITH THE EMBASSY INTERJECTING ITSELF WHENEVER DISCRIMINATION AGAINST U.S. CARRCERS ARISES.

J. SCIENCE AND TECHONOLGY: THE ROKG HAS PUT GROWING EMPHASIS ON ACQUIRING FOREIGN TECHNOLOGY AND ON DEVELOPING ITS OWN SCIENTIFIC CAPABILITIES, BUT HAS RECOGNIZED THAT THE LATTER WILL TAKE MORE TIME. THE EVOLUTION OF THE KOREAN ECONOMY WHERE LABOR SHORTAGES ARE BEGINNING TO FORCE IT TO USE MORE CAPITAL AND MORE SOPHISTICATED TECHNIQUES IS REINFORCED BY ITS POLICIES OF PRODUCT DIVERSIFICATION INTO ELECTRONICS, MACHINERY, HEAVY INDUSTRY AND CHEMICALS. KOREANS REGARD THE U.S. AS THE PRIME SOURCE OF STATE-OF-THE-ART TECHONOLGY, BUT THE JAPANESE HAVE OFTEN BEEN CHEAPER AND MORE INTERESTED, ALTHOUGH THEY MAY NOW BE CHANGING AS THEY SEE KOREA AS A FUTURE COMPETITOR.
SNEIDER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, ECONOMIC COOPERATION
Control Number: n/a
Copy: SINGLE
Sent Date: 23-Dec-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SEOUL10799
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770479-0450
Format: TEL
From: SEOUL
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771221/aaaaarmm.tel
Line Count: 194
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 59bccafd-c188-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY, STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY, STADIS
Reference: 77 STATE 299030, 77 SEOUL 3050
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 138565
Secure: OPEN
Status: NATIVE
Subject: EAST ASIA ECONOMIC POLICY REVIEW
TAGS: PFOR, AMGT, KS, US, XC
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/59bccafd-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009